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October 1, 1999

Mr. Michael Hash
 Deputy Administrator
 Health Care Financing Administration
 7500 Security Boulevard
 Baltimore, MD 21244-1850

Dear Mr. Hash:

I am writing to obtain resolution of California's request for approval of an 1115 Demonstration Project for family planning services, known as the Family PACT Program. We continue to be concerned about the delay in granting final approval.

California has worked closely with the U.S. Department of Health and Human Services to obtain approval of this waiver with an effective date of July 1, 1999. In February, Governor Gray Davis and I met with Secretary Shalala and other key members of the U.S. Health and Human Services executive staff. At that time, we were happy to hear of the support for this important waiver proposal that will facilitate the goal of reducing teen pregnancies and unwanted births, a goal that is shared by both the federal government and California. Since this meeting, we have met twice more and have had numerous telephone conversations between our two organizations some as recently as this week. Discussions are moving forward in this process; however, three issues have yet to be resolved on this waiver.

Throughout this process staff from the California Department of Health Services (DHS) have been responsive to concerns raised by HCFA and have agreed to significant program changes to accommodate these concerns. However, one issue remained unresolved when we discussed this waiver on September 14, 1999, and two new issues were raised at the staff discussion on September 20, 1999. A brief summary of these issues is presented below.

1. **Effective Date of the Demonstration Project**— California has requested an effective date of July 1, 1999, for commencement of this Demonstration Project. This effective date was discussed in a March 2, 1999, meeting with HCFA



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management staff and also stated in subsequent discussions. In the subsequent discussions with HCFA management, there was no indication that a July 1, 1999, effective date would be problematic. California has assumed this effective date for this Demonstration Project in establishing its current State operating budget. Therefore, any change of effective date would create an immediate and considerable budget deficit. We continue to request your consideration and approval of this effective date for the project. Although granting a July 1, 1999, effective date would now be a retroactive move, we believe that there is precedent, for such a decision. HCFA has on at least two occasions granted retroactive funding of 1115 waivers.

2. **Federal Funding of Family PACT Services** – Staff from the HCFA Family and Children's Health Programs Group have indicated that no federal funding participation (FFP) will be available for medical services (e.g., surgery / treatment of a complication from a family planning method) nor will FFP be available for sexually transmitted infections / diseases (STI) services. California is opposed to creating a waiver that provides contraceptive services without funding the screening for and treatment of STI. We believe the waiver should continue support for these services for the following reasons:

- The Family PACT Program was designed with this concept as one of its fundamental principles. California has one of the highest rates in the nation for diagnosis of new cases of STIs. An integral part of ensuring the reproductive health of our vulnerable populations is to ensure adequate access to the diagnosis and treatment for STIs.
- Exclusion of STI management from family planning services is contrary to any current standards of practice or public health policies and principles. The Centers for Disease Control and Prevention is currently conducting an "infertility project" in Region IX for the purpose of studying the known link between chlamydia and infertility. Early detection and treatment of STIs is not only sound personal health care policy and public health care policy, but it is also cost-effective. Moreover, the presence or absence of STIs impacts the choice and management of contraceptive methods.

We hope that HCFA will reconsider its position and once again request your approval of FFP for these services. We would note that our budget neutrality analysis accompanying our waiver assumed expenditures for the treatment of STIs, and we still realized significant projected savings over the five-year period.

3. **Base Year for Birthrate and Budget Neutrality** – Based on discussions with HCFA staff during July and August, California revised our approach to our budget neutrality (EN) calculations. HCFA staff advised us that we needed to establish a base year birthrate and provide BN calculations incorporating a comparison of our

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pre-waiver and post-waiver birthrate for the women covered under the proposed Demonstration Project. HCFA was to allow California to pick the base year in this approach.

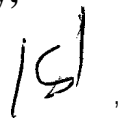
During an August 3, 1999, telephone conference between HCFA staff and DHS staff, it was our understanding from MCFA staff that 1997 would be used as our base year for these BN calculations. This is the most recent year for which this data is available. On September 20, 1999, in another telephone conference, HCFA staff indicated that 1997 was not acceptable and that we needed to use 1998 as our base year. We request that you reconsider this position, and grant approval to use 1997 as our base year,

In addition to the above issues, we would like to mention that California is making program and systems changes to address HCFA requirements. One of these changes is to have State employees perform the final eligibility determination for Family PACT eligibles. These changes are increasing the cost of administering this program for both the State and federal governments. We would like to emphasize that this Demonstration Project targets a very limited scope of preventive services, and it is not a full scope Medicaid program. We prefer to avoid any additional requirements that would create a high-cost administrative system for these low-cost and very cost-effective health care services for needy and low-income populations.

The Davis Administration has a special relationship with HCFA and is pleased that you have recognized the importance of this proposal and its approval.

If you have any questions or you would like to discuss this matter further, please contact Mr. Glen Rosselli, Undersecretary, at (916) 654-3345.

Sincerely,



GRANTLAND JOHNSON
Secretary

cc: Diana Bonta, Director, California Department of Health Services
Andrew Hyman, Director, U.S. Department of Health and Human Services,
Office of Intergovernmental Affairs